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Q1 2018
Investment Commentary

After several years of relative calm, stock market volatility returned in full force in the first quarter of 2018. The Volatility Index (VIX) —which measures US stock market volatility — increased from 9% to more than 35% during March and now sits at approximately 17%. This spike in volatility was, arguably, somewhat overdue as the US market had gone over 410 trading days without a 5% correction and 500 days without a 10% correction.

The Canadian and US stock markets swung wildly over the quarter, although the Canadian market was the much weaker performer of the two, dropping almost 5% through March 31. Market returns were negatively impacted by a number of factors including (i) fear that Trump will start a trade war with China, (ii) losses in technology stocks as result of data privacy concerns sparked by the Facebook/Cambridge Analytica debacle and (iii) expected interest rate increases.

Notwithstanding these issues and the disappointing investment results for the quarter, the North American economy generally remains in good shape. Unemployment rates are at historic lows (5.8% in Canada and 4.1% in the US), GDP growth has been reasonably strong and S&P earnings growth for the first quarter of 2018 is expected to be the fastest it's been in seven years.

Despite recent portfolio declines, there is a silver lining. By many measures, a number of stock market segments are now relatively inexpensive, particularly in Canada. The TSX Composite Index has a price-to-forward-earnings ratio of 15x, which is near a 5-year low. While the US market appears somewhat expensive on the surface, the S&P 500 trades at a reasonable 17x forward-earnings when you strip out the influence of technology and telecommunications stocks.

We are beginning to see this dynamic at work in our day-to-day, bottom-up, fundamental research. The recent market volatility has created some interesting buying opportunities for us to deploy portfolio cash reserves. In particular, we have taken note of several situations where share prices have suffered significant declines despite relatively modest negative earnings reports.

In sifting through various investment opportunities, we remain focused on investing in businesses with strong cash flows and solid business models. We continue to remain skeptical of businesses with negative operating cash flow, including those that must continually raise capital to stay afloat while pursuing questionable growth opportunities.

In March, we welcomed Mark Yestrau to the Bridgeport team as Director, Wealth Management. Born and raised in Manitoba, Mark holds a Bachelor of Commerce and is a CFA charterholder. He comes to us with 12 years of experience at another portfolio management firm. Mark's primary focus at Bridgeport will be to work with our clients, assisting with all their portfolio management needs.

Finally, we have two items to discuss in terms of investor communications. First, you may notice we made some minor modifications to our quarterly investment reports in an effort to improve their readability. Second, over the last few months, we have begun reaching out to clients to provide access to our online portal. This allows electronic access to quarterly investment reports along with tax information and other communications. Please feel free to reach out should you have any questions about either of these items. We thank you for your continued support and wish you all the best for a warm spring!

Yours truly,

John Fisher

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